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Foreign direct investment in Sub-Saharan Africa and its effects on economic growth of the region

The objective of this paper is to analyze foreign direct investment (FDI) in Sub-Saharan Africa and examine its effects on economic growth of the region. Although, in absolute terms, FDI inflows to Sub-Saharan Africa have risen significantly over the recent three decades, the overall performance of the region in attracting FDI seems to be disappointing. FDI inflows into Sub-Saharan Africa spread unevenly across the region showing a high degree of concentration in a few countries. There is mixed evidence regarding FDI impact on economic growth in Sub-Saharan Africa. As significant FDI activities in Africa are taking place in the mining sector, backward and forward linkages and spillover effects are very limited. Further efforts of Sub-Saharan Africa should focus on implementing wise development strategies. It could not only help to attract more FDI to the region, but also result in reducing the barriers to FDI effectiveness. The paper is based mainly on the analysis of the latest statistical data and theoretical and empirical findings from literature.

Bezpośrednie inwestycje zagraniczne w Afryce Subsaharyjskiej i ich wpływ na wzrost gospodarczy regionu

Celem artykułu jest dokonanie analizy bezpośrednich inwestycji zagranicznych (BIZ) w Afryce Subsaharyjskiej i ich wpływu na wzrost gospodarczy krajów regionu. Pomimo że w wartościach absolutnych wielkość napływu BIZ do Afryki Subsaharyjskiej wzrosła znacząco w okresie ostatnich 30 lat, ogólny obraz regionu jako biorcy BIZ wydaje się raczej rozczarowujący. Napływ kapitału w analizowanej formie wykazuje wysoki stopień koncentracji w kilku krajach regionu. Wyniki badań nad wpływem BIZ na wzrost gospodarczy krajów Afryki Subsaharyjskiej nie są jednoznaczne. Ponieważ znacząca część BIZ trafia do sektora wydobywczego, efekty typu „spill-over", jak i powiązania o charakterze popytowym z dostawcami oraz podażowym z odbiorcami są w dużym stopniu ograniczone. Wysiłki krajów regionu zmierzać powinny do implementacji właściwych strategii rozwoju. Pozwoliłoby to nie tylko na przyciągnięcie większej ilości kapitału w postaci BIZ, ale także zwiększenie pozytywnego wpływu inwestycji na wzrost gospodarczy. Artykuł oparty jest głównie na analizie najnowszych danych statystycznych, jak i wynikach badań empirycznych i teoretycznych zawartych w literaturze.

Keywords: FDI, economic growth, development, Sub-Saharan Africa

Introduction

Foreign direct investment (FDI) flows have increased substantially over the last twenty years. FDI has become a very important source of private external finance for many developing countries. Taking into account the potential positive effects of FDI on economic growth and development, those countries started to take steps to attract it.

The objective of this paper is to analyze FDI in Sub-Saharan Africa, the poorest developing region in the world. It is argued that the effects of FDI on economic growth of the Sub-Saharan African countries have been so far quite limited. Section 1 provides a brief overview of Sub-Saharan Africa. Section 2 presents the theoretical framework of FDI. Section 3 discusses the trends in FDI in Sub-Saharan Africa. Section 4 highlights the relationship between FDI and economic growth in the region.

1. Overview of Sub-Saharan Africa

The region of Sub-Saharan Africa includes 49 countries, with the combined population of 862 million in 2010 and the total area of 24 million square kilometers[1]. The three most populated Sub-Saharan African countries are: Nigeria (158 million people), Ethiopia (83 million people), and the Democratic Republic of Congo (66 million people). Seychelles, Sao Tome and Principe, and Mayotte are in turn the smallest nations in terms of population (less than 0.5 million altogether) [World Bank, 2012a].

Sub-Saharan Africa is the poorest region in the world. In 2010, its GDP per capita based on purchasing power parity equalled $2281, compared to $3229 in South Asia, $6672 in developing East Asia and Pacific, $7160 in developing Middle East and North Africa[2], $11192 in developing Latin America and Caribbean, and $13687 in developing Europe and Central Asia [World Bank, 2012a][3]. In 2011, thirty three Sub-Saharan African countries were classified by the United Nations as the least developed [UN-OHRLLS, 2012]. At the same time, thirty five countries of the region fell into the category of low human development by the standards of the Hu-

[1] The region of Sub-Saharan Africa includes: Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo, Dem. Rep., Congo, Rep., Cote d'Ivoire, Equatorial Guinea, Eritrea, Ethiopia, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mayotte, Mozambique, Namibia, Niger, Nigeria, Rwanda, Sao Tome and Principe, Senegal, Seychelles, Sierra Leone, Somalia, South Africa, South Sudan, Sudan, Swaziland, Tanzania, Togo, Uganda, Zambia, Zimbabwe.

[2] East Asia and Pacific – data for 2009.

[3] All figures for GDP per capita based on purchasing power parity are in current international dollars.

man Development Index (HDI). The fifteen countries which were placed last in the 2011 HDI ranking were all from Sub-Saharan Africa [UNDP, 2011, pp. 127–130].

In 2008, almost half (47 per cent) of the population of Sub-Saharan Africa lived on less than $1.25 a day. It was the highest percentage for any region in the world exceeding by one fifth that for South Asia and by much more than 3 times that for East Asia and Pacific [World Bank, 2012b]. Sub-Saharan Africa records the highest prevalence of undernourishment in the world. The proportion of undernourished people in the region reached 27 per cent in 2006-2008 [FAO, 2011, p. 44]. In 2008, only 31 per cent of the population of Sub-Saharan Africa had access to improved sanitation. In 2010, as many as 22.9 million people in the region lived with HIV. Life expectancy at birth was less than 54 years in 2009, compared to 65 years in South Asia and 72 years in developing East Asia and Pacific [World Bank, 2012a].

South Africa and Nigeria have the largest economies in the region, accounting respectively for 32.7 per cent and 17.4 per cent of the total Sub-Saharan Africa's GDP in 2010. Equatorial Guinea records the highest levels of GDP per capita. Its GDP per capita at $19998 in 2010 was 15 times higher than the Sub-Saharan Africa average ($1302) and 104 times higher than GDP per capita of Burundi ($192) [World Bank, 2012a].

Since the 1970s, Sub-Saharan Africa's economic growth performance has been very disappointing. In the 1970s, annual growth rate of real GDP per capita averaged 0.7 per cent [own calculations based on the World Bank, 2012a]. This moderate growth rate was supported by a boom in commodity prices and foreign aid. However, during the next two decades, Sub-Saharan Africa suffered negative per capita growth. Real GDP per capita was falling, on average per year, by 0.9 per cent in the 1980s and 0.4 per cent in the 1990s. As a result, in 1999, Sub-Saharan Africa real GDP per capita was at the level of about 5 per cent lower than in 1970. The deterioration of economic performance since the 1980s was connected with weak macroeconomic policies, structural weaknesses of economies and external factors, particularly low and declining prices of primary commodities, unfavourable changes in terms of trade, soaring global interest rates, rising protectionism in the industrialized world [Iyoha 1999, p. 2]. Since 2000, Sub-Saharan Africa has enjoyed improved growth rates largely thanks to terms of trade improvements. From 2000 to 2008, the region's real per capita output expanded annually by 2.6 per cent on average. In 2009, due to the global financial and economic crisis real GDP per capita growth rate in Sub-Saharan Africa turned negative to -0,4 per cent. However, in 2010, the region saw a recovery from the crisis-induced slow-down, recording a 2.2 per cent increase in real per capita output [own calculations based on the World Bank, 2012a].

It is worth noting that growth performance among the Sub-Saharan African countries has been diverse. From 2000 to 2010, real GDP per capita rose by more than 50 per cent in such countries as Cape Verde, Rwanda, Chad, Mozambique, Sierra Leone, Ethiopia, doubled in Angola and more than tripled in Equatorial Guinea. On the contrary, in the same period, the real per capita output contracted by 20-40 per cent in Zimbabwe, Eritrea, and Liberia [own calculations based on World Bank, 2012a].

The Sub-Saharan African economies suffer from various weaknesses which constitute serious obstacles for growth improvement and poverty reduction. One of the most important problems is limited diversification of production, exports and budget revenues. The region's economies are much more dependant on primary commodities than the rest of the world. Although the shares of services, industry and manufacturing in region's GDP have been rising, traditional agriculture sector tends to absorb the majority of labour force in many countries. Besides agricultural products, Sub-Saharan African countries rely heavily on fuels, minerals and metals. In 2009, in the Sub-Saharan Africa, excluding South Africa and Nigeria, exports of primary commodities accounted for 73 per cent of total merchandise exports. In every fifth Sub-Saharan African country, one or two products accounts for at least three fourths of total exports [World Bank, 2012c].

The next problem is underdevelopment and poor quality of infrastructure. Large deficit of infrastructure is found in the power sector. The amount of power generated by all Sub-Saharan African countries is comparable to that of Spain [World Bank, 2012d]. Poor road infrastructure increases the costs of transport and doing business, and impedes trade in the region. With the exception of South Africa, railway systems that can enable much more efficient transportation of goods and passengers do not practically exist [Kalema, 2011, p. 112].

Another issue regards poor governance and dysfunctional political institutions. These weaknesses lower the efficiency of any development strategy and bear at least partial responsibility for bad economic performance of Sub-Saharan Africa in the past. Although significant improvements in the area of governance have been made in recent years, reducing corruption and bureaucracy, increasing adherence to the rule of law, strengthening public financial management systems still remain considerable challenges for the Sub-Saharan African countries.

2. Theoretical framework

Foreign direct investment is a type of cross-border investment which is made by a resident entity in one economy (the direct investor), with the aim of establishing a lasting interest in an enterprise (the direct investment enterprise) being a resident in an economy other than that of the direct investor. FDI involves a long-term relationship between the direct investor and the direct investment enterprise and a significant degree of influence of the direct investor on the management of the enterprise. The ownership of 10 per cent of the voting power is regarded as a threshold allowing to qualify an investor as a direct investor [OECD, 2008, p. 17].

The Dunning's eclectic paradigm of international production (also known as the OLI paradigm) constitutes the framework for explaining the activities of enterprises abroad. The paradigm asserts that the extent and pattern of production financed by FDI are determined by the interaction of three sets of forces: ownership, location, and internalization. The ownership refers to competitive advantages which an enterprise possesses over foreign firms in supplying a particular market. The possible sources of these advantages may include either the access to some income-generating assets or the ability to co-ordinate these assets with other assets in international dimension in a way which will provide some exclusive benefits for an enterprise. In turn, the location component is based on the assumption that an enterprise will look for the most profitable points in the space for its value-added activities. The so-called "L variables" may include such benefits arising from investing abroad as lowering labour costs, jumping tariff barriers, saving transport costs, etc. Finally, the last component of the OLI paradigm reflects the extent of willingness of an enterprise to internalise the markets for the generation or the use of its specific assets, and adding value to them by doing so [Dunning, 2001, p. 176].

In literature, four types of motives for FDI are identified: natural resource seeking, market seeking, efficiency seeking, and strategic asset seeking. According to Dunning [1998, table 1], among the most important factors determining natural resource seeking FDI there are: availability, price and quality of natural resources, infrastructure enabling resources to be exploited, investment incentives. For market seeking FDI, factors of significant importance include, *inter alia*, the size and growth of domestic markets and adjacent regional markets, availability and price of skilled and professional labour, quality of infrastructure, presence and competitiveness of related companies, macroeconomic policies pursued by host governments, promotional activities by regional or local development agencies. In the case of efficiency seeking FDI, emphasis is placed on production costs, investment incentives, the presence of agglomerative economies, human resource development, availability of specialized clusters (e.g. science and industrial parks), environment which encourages competitiveness enhancing cooperation both within and between enterprises. Finally, for strategic asset seeking FDI, the most important factors are: availability of knowledge-related assets and markets required to protect or enhance specific advantages of an enterprise, institutional framework influencing easiness of acquiring these assets by an investing firm, etc.

There is vast literature on FDI impact on economic growth and development. According to many researchers, FDI may have significant positive effects on host countries' economies and their development efforts. First of all, FDI constitutes an additional source of financial resources for a host economy, which permits domestic investment to exceed domestic savings [UNCTAD, 1999, p. 157]. In addition, FDI can bring new technology, know-how, managerial and marketing skills, international best practices of doing business, benefits arising from increased competition and so on [Sukar, Ahmed, Hassan, 2007, p. 62]. FDI may also crowd in domestic investment. This phenomenon can occur through backward and forward linkages, knowledge-spillovers, and as a result of multiplier effects [Gallagher, Zarksy, 2007, p. 25]. Moreover, FDI may contribute to the export performance of a host developing country and positively affect its balance of trade [UNCTAD, 2002, chapter VI]. FDI inflows can enhance the potential for corporate income tax revenues and improve a fiscal situation of a recipient country [Sukar, Ahmed, Hassan, 2007, p. 62].

However, it is also claimed that FDI may have a negative impact on growth prospects of a host economy. One of the most important problems is that FDI can have a crowding out effect on domestic investment. This effect takes place when domestic enterprises abandon their investment plans to avoid competing with more efficient foreign companies and the released resources do not go to other activities in which local enterprises have stronger competitive advantages [UNCTAD, 1999, p. 171]. There are also concerns that transnational corporations can provide their foreign affiliates with insufficient or wrong kind of technological capabilities [Ayanwale, 2007, p. 5]. It is also pointed out that the outflows of earnings from FDI lead to the deterioration in the balance of payments of a host country. Finally, it is argued that corporate income tax revenues in a host country may be adversely affected by transfer pricing or other strategies of transnational corporations to minimize taxes [Gropp, Kostial, 2000, p. 14].

As far as empirical studies are concerned, they reveal mixed evidence on the effects of FDI on economic growth. However, taking into account various findings, it can be concluded that the impact of FDI on growth depends on two main factors: the specific conditions of a country in general, and the policy environment, especially in terms of the ability to diversify, the level of absorptive capacity, targeting of FDI and possibilities for linkages between foreign and domestic investment [Adams, 2009, p. 179].

3. Trends in FDI in Sub-Saharan Africa

In absolute terms, at current prices and exchange rate, FDI inflows to Sub-Saharan Africa have risen significantly over the recent three decades (Figure 1). The average annual inflows of FDI to the region, which reached US$1.31 billion in the 1980s, increased to US$4.78 billion in the 1990s and US$27.47 billion in 2000-2010. Inflows peaked in 2008, when they exceeded US$50 billion, but the global economic crisis brought them down to US$44.4 billion in 2009 and US$39.7 billion in 2010. In turn, average FDI inflows to Sub-Saharan Africa as ratios of the region's GDP rose from 0.50 per cent in the 1980s to 1.46 per cent in the 1990s and 3.94 per cent in 2000-2010.

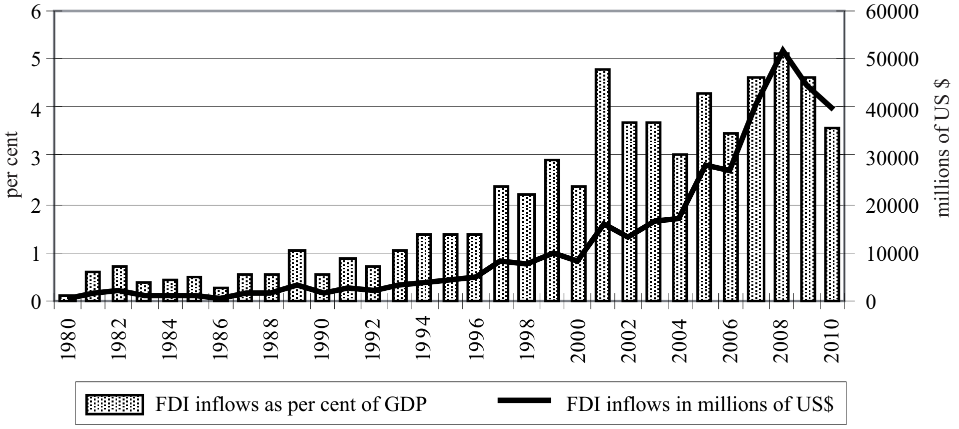


Figure 1. FDI inflows to Sub-Saharan Africa in millions of US$ and as per cent of GDP, 1980–2010

Source: UNCTAD 2012 and own calculations based on UNCTAD 2012 and World Bank 2012a.

For the region as a whole, FDI inward stock in 2010 stood at US$368.4 billion compared to US$109.9 billion in 2000, US$36.8 billion in 1990 and US$29.8 billion in 1980 (Figure 2). FDI inward stock as a percentage of GDP, which fluctuated around the narrow range of about 11–13 per cent in the 1980s, increased to more than 20 per cent in 1998. Despite significant increases in FDI inflows at the beginning of the 21st century, in 2010 Sub-Saharan Africa recorded the same level of FDI inward stock as a percentage of GDP as in 1999.

The analysis of the region's shares in FDI inflows to all developing countries brings much more disappointing picture of the performance of Sub-Saharan Africa in attracting FDI showing large financial marginalization of this region. Its share in FDI inflows to developing countries averaged only 7.1 per cent in 2000-2010, compared to a very low value of 4.3 per cent in the 1990s and 6.0 per cent in the 1980s. FDI stock data reveal a similar picture indicating even the widening gap between Sub-Saharan Africa and other developing regions after 1980. The share of Sub-Saharan Africa in total FDI inward stock of all developing countries decreased from about 10 per cent at the beginning of the 1980s to a little more than 6 per cent in 2010. To compare with, in 2010, the corresponding shares for FDI inward stock stood at the level of 29 per cent in Latin America and the Caribbean and 62 per cent in the developing Asia. The domination of other regions over

Sub-Saharan Africa in attracting FDI is also visible on per capita basis. FDI inward stock per capita in 2010 equalled US$431 in Sub-Saharan Africa, US$932 in the developing Asia and US$2943 in Latin America and the Caribbean [own calculations based on UNCTAD 2012 and World Bank 2012a].

It should be noted that FDI constitutes a smaller proportion of funds flowing to Sub-Saharan Africa than the Official Development Assistance (ODA). In the 1980s, net ODA received by the region's countries was on average annually 8 times larger than FDI inflows and in the 1990s – 3.7 times larger. In 2000-2009, it exceeded on average by 19 per cent volumes of FDI inflows [own calculations based on World Bank 2012a and UNCTAD 2012]. The presented data show that, to a large degree, Sub-Saharan Africa still remains aid-dependent.

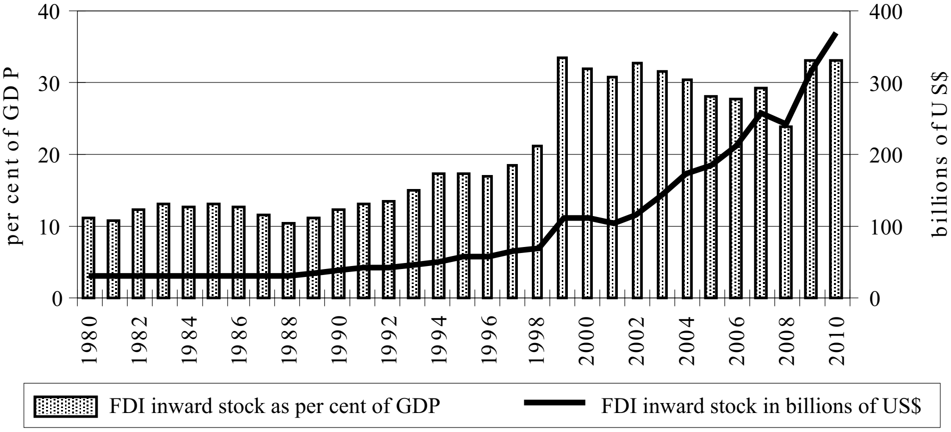


Figure 2. FDI inward stock of Sub-Saharan Africa in billions of US$ and as per cent of GDP, 1980–2010

Source: own calculations based on UNCTAD 2012 and World Bank 2012a.

It can be argued that the limited attractiveness of Sub-Saharan Africa in the eyes of foreign investors results, to a large extent, from various risk factors including economic and political instability, diseases, natural disasters, internal and external armed conflicts, etc. [Adefeso, Agboola, 2012, p. 84].

FDI inflows into Sub-Saharan Africa spread unevenly across the region. Among five top recipients of FDI, i.e. countries with the largest FDI inward stocks, there are: South Africa, Nigeria, Angola, Sudan and the Republic of the Congo (table 1). At the end of 2010, these countries accounted for 69.0 per cent of total FDI inward stock in Sub-Saharan Africa. The next five countries with the largest FDI inward stocks added almost 11 percentage points to this value. However, it should be emphasized that the most important role in the region in attracting FDI is played by South Africa, the country with the largest GDP. The share of South Africa in region's FDI inward stock in 2010 reached 35.9 per cent, compared to 16.4 per cent of Nigeria, which was ranked second in the list of top Sub-Saharan recipients of FDI.

Table 1. Top 10 FDI recipients in Sub-Saharan Africa (in terms of FDI inward stock) in 2010

Country	FDI inward stock in millions of US$	FDI inward stock as per cent of total FDI inward stock of Sub-Saharan Africa
South Africa	132396.4	35.9
Nigeria	60326.7	16.4
Angola	25027.7	6.8
Sudan	20742.7	5.6
Republic of the Congo	15982.6	4.3
Ghana	9098.0	2.5
Zambia	8514.9	2.3
United Republic of Tanzania	7966.3	2.2
Equatorial Guinea	7373.6	2.0
Côte d'Ivoire	6640.8	1.8

Source: UNCTAD 2012.

By contrast, at the end of 2010, the largest ratios of FDI inward stock to GDP were found in Liberia (496 per cent), Seychelles (215 per cent), Uganda (186 per cent), the Republic of the Congo (134 per cent) and Gambia (84 per cent) [own calculations based on [UNCTAD, 2012; World Bank, 2012a].

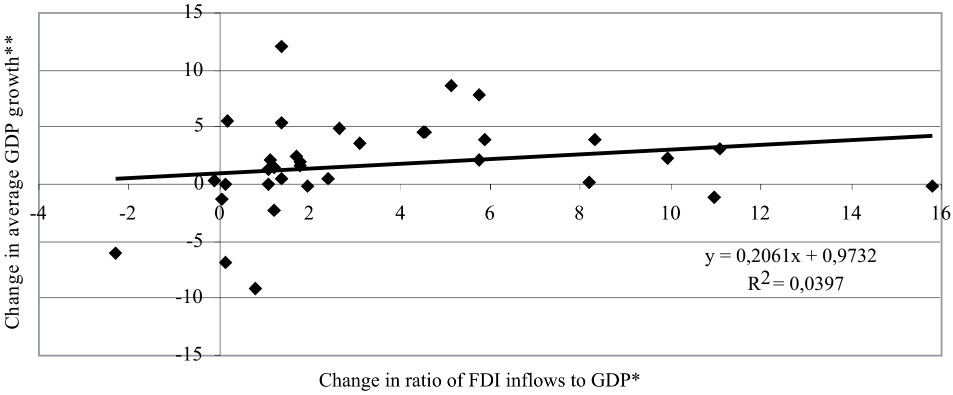
As to the sources of FDI in Sub-Saharan Africa, accurate data are difficult to obtain. Scarce available figures usually refer to Africa as a whole. According to UNCTAD, developed countries are the most important source of FDI on the continent. Their share in total FDI inflows into the region averaged 79.0 per cent in 1995-1999 and 72.1 per cent in 2000-2008. The same group of countries accounted for 89.0 per cent of total FDI inward stock in Africa in 1999 and 91.6 per cent in 2008 [UNCTAD, 2010a, p. 81]. UNCTAD studies indicate large Africa's dependence on a small number of home countries for FDI. For instance, the share of France, the United Kingdom and the United States in total FDI inflows into the region was at the level of close to 70 per cent between 1980 and 2000. Until 1995, the two leading former colonial powers in Africa – France and the United Kingdom – accounted for more than 50 per cent of those flows [UNCTAD, 2005, p. 9]. In a sample of ten African countries including nine from Sub-Saharan part of the continent, 83 per cent of FDI inflows between 2005 and 2010 came from OECD members. FDI from the OECD is concentrated in a few countries. During 2007-2009, as much as 60 per cent of FDI from the OECD members was made in three countries (South Africa, Egypt and Nigeria) out of which two belong to Sub-Saharan Africa [AfDB et al., 2011, pp. 47–48].

The importance of developing countries as a source of FDI for Africa is growing. In 2000-2008, Asia accounted for about 73 per cent of FDI to Africa from developing countries, followed by Africa (intra-regional investment) – 24 per cent and Latin America and the Caribbean – 3 per cent [UNCTAD, 2010a, p. 81]. China and India are the most vital sources of FDI for the region from emerging countries. Chinese FDI flows to Sub-Saharan Africa increased from US$70 million in 2003 to US$5.5 billion in 2008 and then declined to US$1.1 billion in 2009 [IMF, 2011a, p. 18]. Most Chinese FDI in the region is made by large state-owned firms, yet the activity of private investors is growing [IMF, 2011a, p. 18; UNCTAD, 2010a, p. 84]. As far as India's FDI flows into Sub-Saharan Africa are concerned, they are also significant. According to the IMF estimates, in 2006 India's share in Sub-Saharan African FDI inward stock was almost as large as that of China. However, it should be noted, that whereas the majority of FDI from India is concentrated in Mauritius, Chinese investors are present in most Sub-Saharan African countries, notably South Africa, Nigeria, Zambia, Niger, Ethiopia, and the Democratic Republic of the Congo [IMF, 2011b, p. 48].

Regarding FDI from African investors, during 2003-2010, 570 intra-regional FDI projects with the total value of US$46 billion were recorded in the continent. The share of intra-regional FDI in total FDI in Africa was at the level of only 5 per cent in terms of value and 12 per cent in terms of the number of projects. The number of African FDI projects in Sub-Saharan Africa equalled 505, worth a total of more than US$37 billion [UNCTAD, 2011, p. 42]. The majority of African FDI flows into the region come to the neighbouring countries. South Africa is the most critical source of intra-African FDI. It is placed second (after China) on the list of the most important developing country investors on the African continent. The importance of other African countries in intra-regional FDI is very limited [AfDB et al., 2011, p. 48].

4. The relationship between FDI and economic growth in Sub-Saharan Africa

There is mixed evidence regarding FDI impact on economic growth in Sub-Saharan Africa. Figure 3 shows the relationship between the changes in the average share of FDI in GDP and the changes in average GDP growth rates between the two periods: 1981–1990 and 2001–2010. The sample of 34 Sub-Saharan African countries, for which all necessary data were available, was used in the analysis. As can be seen, the results of linear regression show no or a very weak positive relation between FDI and economic growth in the region[4]. This finding is consistent with the results of some other studies. For example, Sukar, Ahmed and Hassan [2007] use the conditional convergence model to examine the effect of FDI on GDP growth of twelve selected Sub-Saharan African countries over the period of 1975–1999. Their results indicate the positive but statistically insignificant effect of FDI on economic growth. The results of another econometric study, conducted by Adams [2009], based on a panel data set for forty two Sub-Saharan countries for the period 1990–2003, also fail to provide convincing evidence on positive effect of FDI on GDP growth in the analyzed region.



* The difference between average ratio of FDI inflows to GDP for the periods 1981–1990 and 2001–2010.
** The difference between average GDP growth for the periods 1981–1990 and 2001–2010.

Figure 3. The relationship between FDI inflows and economic growth in Sub-Saharan Africa, 1981–2010

Source: own calculations based on UNCTAD, 2012; World Bank, 2012a.

On the other hand, Ndambendia and Njoupouognigni [2010] find strong evidence of a positive impact of FDI on economic growth in 36 Sub-Saharan Africa countries over the period 1980-2007. Similarly, Seetanah and Khadaroo [2007], who investigate the relationship between FDI and the economic performance for 39 Sub-Saharan African countries during the period from 1980 to 2000, find a positive and significant effect of FDI on the level of economic growth. However, the contribution of FDI to economic growth turns out to be relatively less important, compared to domestic private and public investment. In turn, Esso [2010], using data from 1970 to 2007, examines the relationship between FDI and economic growth in the case of ten Sub-Saharan African countries, namely: Angola, Cameroon, Congo, Cote d'Ivoire, Ghana, Kenya, Liberia, Nigeria, Senegal, and South Af-

[4] This regression study follows a similar study conducted by UNCTAD in 2005.

rica. The analysis based on two newly econometric approaches shows a positive long-run relationship between FDI and economic growth in Angola, Cote d'Ivoire, Kenya, Liberia, Senegal and South Africa. Conclusion about causality is that FDI significantly causes economic growth in Angola, Cote d'Ivoire and Kenya, but not in Liberia and South Africa where GDP growth causes FDI inflows. It should be added that the two-way causation between FDI and economic growth in the Sub-Saharan African countries has also been detected for example by Seetanah and Khadaroo [2007].

Notwithstanding the above considerations, it should be noted that in terms of value, FDI in Africa is concentrated in primary activities, particularly in the natural resource extraction [UNCTAD, 2005, p. 9; UNCTAD, 2010b, p. 33][5]. For instance, in 2010, the primary sector – mainly coal, oil and gas – accounted for 43 per cent of total value of cross-border mergers and acquisitions in Africa. At the same time, the relevant percentage for manufacturing equalled 29 per cent (almost half of that was in the metal industry) and for services (mainly communications and real estate) – 28 per cent [UNCTAD, 2011, p. 41]. Rising investor interest in the African mining sector can be attributed to a state withdrawal from this sector, expanded opportunities for the private sector and increased incentives to attract FDI [UNCTAD, 2005, p. 39]. In addition, the commodities boom in the mid-2000s enhanced investor interest in the African extractive industries [Sundaram, Schwank, von Arnim 2011, p. 11]. There is no doubt that the concentration of FDI in the mining sector does not favour the diversification of Sub-Saharan African exports. Moreover, as the technology employed in natural resource extraction is capital rather than labour intensive, large numbers of jobs are unlikely to be created [Adams 2009, UNCTAD 2005]. Furthermore, FDI in the mining sector is regarded to be associated with very limited backward and forward linkages and spillover effects [UNCTAD 2005, p. 47]. Therefore, FDI in extractive industries is not likely to contribute much to broad-based development.

However, the latest data indicate that in terms of the number of investment projects, significant FDI activities in Africa are taking place in manufacturing. For instance, over the period 2003-2009, this sector accounted for 41 per cent of all greenfield FDI projects, including, among others, metals – 9 per cent of the total, transport equipment – 7 per cent, and food and beverages – 6 per cent [UNCTAD, 2010b, p. 33]. Diversification from the primary sector to manufacturing and services would be a key factor which could help spur growth and development in Sub-Saharan Africa.

[5] Data for sectoral distribution of FDI for Sub-Saharan Africa alone are not available.

Conclusions

Fighting poverty and enhancing economic growth have become the most important challenges for Sub-Saharan Africa. The study of the World Bank [Ndulu et al., 2007, pp. 21–24] identifies four pillars of the growth strategies for the region. The first pillar is improving the investment climate. Emphasis is placed on the reduction of indirect costs to enterprises, mainly those arising from impediments in the area of infrastructure (first of all energy and transportation), and the reduction and mitigation of risks, especially those relating to the security of property. The second pillar refers to the above mentioned infrastructure, in particular, targeting transactions costs in the production of goods and services. Reducing the high costs associated with the geographical remoteness in order to facilitate trade with neighbouring countries and the rest of the world is the most pressing problem. The third pillar is innovation. Enhancing productivity and competitiveness through investment in information and communication technology and higher education is the key issue in this area. The last pillar is institutional capacity. It focuses mainly on strengthening the capacity for clarifying and protecting property rights and strengthening the scrutiny of public actions.

The Sub-Saharan African countries should strengthen their efforts not only to attract more FDI but also to direct it into more diversified and higher value-added activities. Additionally, there is not a shadow of doubt that the implementation of the development strategy based on the pillars identified by the experts of the World Bank would both help to attract more FDI to the region and result in reducing the barriers to FDI effectiveness.

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